COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0538H.02C
Bill No.: HCS for HB 257
Subject: Retirement Systems and Benefits - General; Retirement - Schools; Education, Elementary and Secondary; Teachers
Type: Original
Date: March 31, 2023

Bill Summary: This proposal modifies provisions relating to teacher and school employee retirement systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	**$0**	**$0 to $10,400,000**	**$0 to $10,400,000**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Employee Retirement (JCPER) s**tate the proposal has no direct fiscal impact to the JCPER.

The JCPER's review of this proposal indicates that its provisions may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10). It is impossible to accurately determine the fiscal impact of this legislation without an actuarial cost statement prepared in accordance with section 105.665.

Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage.

Section 104.160 - **MoDOT & Patrol Employees' Retirement System Elected Trustees**

Current Status of MPERS:

As of June 30, 2022 Funded Ratio 66.33%

Market Value of Assets:	$3,067,193,086
Actuarial Value of Assets:	$2,925,561,398
Liabilities:	$4,410,685,047
Unfunded Actuarial Accrued Liabilities (UAAL)	$1,485,123,649

Active Employee Payroll as of June 30, 2022: $367,493,332

Recommended Contribution Rate for FY 2022: 58% of payroll. Estimated employer contribution is approximately $212.7 million. Employees hired for the first time on or after January 1, 2011 contribute 4% of compensation to MPERS.

Officials from **MoDOT & Patrol Employees' Retirement System (MPERS)**, state this proposed bill, if enacted, would stagger the terms for MPERS' elected trustees. MPERS has four trustees elected by representative bodies (two active employees, one each from MoDOT and the Highway Patrol and two retirees, one each from MoDOT and the Highway Patrol) for four-year terms. At present, all four of these positions become eligible for reelection at the same time. In the event all four trustees had opposition and then were all replaced with new trustees, MPERS' board would have a significant turnover of trustees (4 out of 11 total trustees) and loss of institutional knowledge because some of the elected trustees have been on the board for several years.

If enacted, MPERS would hold the scheduled election in March of 2026. The active trustees elected at that time would serve a two-year term rather than four years. MPERS would hold a new election for the active trustees in March of 2028 and those newly elected active trustees would then serve a four-year term going forward, thereby staggering the terms.

The outcome will require MPERS to hold elections more often (every two years rather than every four years), but it is not a significant enough change to overshadow the benefit of not losing four elected trustees simultaneously. The MPERS Board of Trustees is going through several process improvements intended to improve the organization and its oversight. This proposal is supported by the board as one of those improvements. This proposal will have no fiscal impact.

Officials from the **Missouri Department of Transportation** assume the proposal will have no fiscal impact on their organization.

Oversight notes that above agencies have stated the proposal would not have a direct fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for this section of the proposal.

<u>Sections 169.070, 169.560, and 169.596 – Public Schools and Education Retirement System (PSRS) and Public Education Employee Retirement System (PEERS)</u>

Current Status of the Public School Retirement System (PSRS) as of June 30, 2022:

Active members: 78,973
Inactive members: 87,096 (includes retired, surviving beneficiary, disabled and terminated vested)

		Funded Ratio
Market Value of Assets:	$47,671,054,492	
Actuarial Value of Assets:	$47,185,300,000	85.2%
Liabilities:	$55,405,259,756	

Covered Payroll: $5,271,368,324

Recommended Contribution for FY 2022: 29% - Employers and employees contribute in equal amounts of 14.5%.

Percent	Dollars (Estimated)	
Employer	14.5%	$764,348,407 (estimated)
Employee	14.5%	$764,348,407 (estimated)
Total	29.0%	$1,528,696,814 (estimated)

Current Status of the Public Education Employee Retirement System (PEERS) as of June 30, 2022:

Active Members: 50,179
Inactive Members: 81,318 (includes retired, surviving beneficiary, disabled and terminated vested)

		Funded Ratio
Market Value of Assets:	$6,153,590,531	
Actuarial Value of Assets:	$6,113,154,000	87.3%
Liabilities:	$6,998,708,341	

Covered Payroll: $1,864,704,185
Recommended contribution rate for FY2022: 13.72%. Employers and employees contribute in equal amounts of 6.86%.

	Percent	Dollars
Employer	6.86%	$127,918,707 (estimated)
Employee	6.86%	$127,918,707 (estimated)
Total		$255,831,414 (estimated)

Officials from the **Public Schools and Education Employee Retirement Systems (PSRS/PEERS)** state the Systems have an actuary firm, PricewaterhouseCoopers (PWC), that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems. PWC has provided a cost statement for this legislation. The overall results and impacts of this legislation is discussed below.

This legislation, as currently drafted, has three specific components impacting Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System (PEERS) that are each addressed below.

<u>Section 169.560 - Working After Retirement - PSRS Retiree in Non-Certificated Position</u>

Currently, any retired teacher from PSRS can be employed in a non-certificated position covered under PEERS without impacting their retirement benefit up to certain limitations. Any certificated retiree may earn up to 60% of the minimum teacher's salary ($15,000) as established by Section 163.172, RSMo, and will not contribute to the retirement system or earn creditable service for that work. The employers would be required to contribute into the PEERS for such employment.

This legislation will allow a retired, certificated teacher, working in a non-certificated position covered under PEERS, to earn up to 133% of the annual earnings limit applicable to a Social Security limitation as set forth in 20 CFR 404.430 through June 30, 2028. After June 30, 2028 the retired, certificated teacher, working in a non-certificated position covered under PEERS, would be able to earn up to the annual earnings limit applicable to a Social Security limitation as set forth in 20 CFR 404.430.

PwC reviewed this portion of the legislation and estimated the impact of the proposed change to increase the pay-based limit on working after retirement under RSMo 169.560 Paragraph 2, in particular the increase to 133% of the annual Social Security earnings exemption amount through June 30, 2028 and then to 100% of the annual Social Security earnings exemption amount thereafter, to be a **fiscal loss to PSRS** if there is a change in active member retirement behavior to retire earlier as a result. This analysis is based on this provision in isolation and not the aggregate impact of all components of the legislation.

PwC indicated the proposed change to Section 169.560 Paragraph 2 is expected to result in an **insignificant fiscal gain to PEERS**.

Section 169.596 - Critical Shortage

The critical shortage employment exception found in Section 169.596, RSMo is a statutory provision which allows covered employers who meet certain requirements (as set forth in statute) to employ a limited number of PSRS/PEERS retirees up to full-time without affecting the payment of their retirement benefits. Each retired member is limited to two years working under the critical shortage employment exception.

During the two years of critical shortage employment, employer contributions must be made on all salary earned, including employer-paid medical insurance premiums and pay for additional duties. The retired members employed under this provision continue to receive benefits, but do not contribute to PSRS/PEERS or earn service. By statute, districts cannot use the critical shortage employment exception to fill the position of superintendent.

This legislation allows retirees to return to work under the critical shortage exemption statute up to four years versus the current two-year restriction. PwC reviewed this portion of the proposed legislation and noted it is expected to have **an insignificant fiscal gain for both PSRS and PEERS**.

Critical Shortage – Number of Positions Allowed

The critical shortage employment exception found in Section 169.596, RSMo, indicates the total number of retired certificated teachers hired under the critical shortage declaration shall not exceed the lesser of ten percent of the total teacher staff for that school district, or five certificated teachers. The proposed legislation would change this provision to be the greater of one percent of the total certificated teachers and noncertificated staff for that school district or five certificated teachers.

PwC reviewed this portion of the proposed legislation and noted it is expected to have an **insignificant fiscal gain for PSRS and PEERS**.

Section 169.070 - 2.55% Formula Factor Provision

This legislation removes the expiration date of July 1, 2014, for the 2.55% Formula Factor Provision with 31 or more years of service for 169.070.1(8), RSMo for members of the Public School Retirement System of Missouri (PSRS). Additionally, this legislation amends the years of service requirement for the provision from 31 or more years of service to 32 or more years of service.

Currently, PSRS members who have 32 years or more of creditable service and retire have their retirement benefit calculated using a multiplier of 2.5%. The 2.55% Benefit Formula Factor Provision would allow for eligible members with 32 or more years of service to retire with an additional 0.05% Formula Factor.

The analysis prepared by PwC indicating, the proposed legislation would reduce the Plan's Actuarial Accrued Liability (AAL) by $234.4 million and result in an increase to the Plan's pre-funded ratio of 0.37%.

There are two components that impact the Actuarially Determined Contribution Rate (ADC) for a public retirement plan; the Normal Cost Rate (NC) and the Unfunded Actuarial Accrued Liability Rate (UAAL). The reduction of the AAL, results in a decrease in the annual UAAL rate resulting in annual savings of approximately $14 million for the next 30 years (for PSRS). There are additional annual savings of $7.2 million per year due to the reduction of the normal cost as a result of these provisions being made a permanent part of the benefit structure. The annual normal costs savings will continue as long as the new provisions are in force (this could extend beyond 30 years).

The annual savings of $21.2 million per year for the next 30 years is due to the reduction of the UAAL Rate and the NC Rate of the Plan as a result of the 2.55% provision being made a permanent part of the benefit structure (for PSRS).

PWC modeled two scenarios based on current information that result in a fiscal gain for PSRS. PWC further notes that it is also possible for PSRS to experience no fiscal gain or a fiscal cost related to these changes, depending on whether or not active members and employers change their behavior as expected. This portion of the legislation has no impact on PEERS.

Aggregate Fiscal Impact to all Proposed Provisions

There are only two provisions that are expected to have a significant impact on the Systems. Those provisions are the changes to the annual earnings limit for PSRS retirees working in non-certificated positions and the reinstatement of the 2.55% formula factor for PSRS members that work at least 32 years. As discussed, the 2.55% formula factor provisions are a significant fiscal savings to PSRS.

If, the change in the annual earnings limit for PSRS retirees working in non-certificated positions through June 30, 2028, incentivizes PSRS members to retiree earlier than expected the savings from the 2.55% provision would be diminished. However, since the increased annual earnings limit is for a very limited time the savings are not substantially diminished, **resulting in a cost savings in total.**

The analysis prepared by PwC indicated, that the proposed legislation could reduce the Plan's Actuarial Accrued Liability (AAL) by $213.7 million and result in an increase to the Plan's pre-funded ratio of 0.33%, under this scenario. It is further estimated that the actuarially determined contribution would decrease resulting in annual savings of $20.8 million per year for the next 30 years.

The aggregate impacts to PEERS are not anticipated to be fiscally significant.

Oversight assumes the reduction in the Normal Cost Rate and the Unfunded Actuarial Accrued Liability will result in a decrease to the Actuarially Determined Contribution (ADC) Rate.

Oversight notes the estimated annual savings of $20.8 million is split between employer contributions and employee contributions. The estimated employer contributions would decrease by $10.4 million per year. Oversight will reflect a potential savings to school districts for the employer contribution savings.

Oversight will show a range of impact of $0 (little or no change in the behavior of active members and employers) to a savings in employer contributions as provided by the actuarial cost estimate. Oversight assumes this proposal is effective August 28, 2023 (FY 2024). Given that actuarial-determined contribution rates will have already been determined for FY 2024 once this proposal is effective, Oversight will show a savings to local school districts beginning FY 2025.

FISCAL IMPACT – State Government	FY 2024	FY 2025	FY 2026
	$0	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2024	FY 2025	FY 2026
SCHOOL DISTRICTS			
Cost Avoidance - reduction in actuarially determined contributions - §169.070	$0	$0 to $10,400,000	$0 to $10,400,000
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	**$0**	**$0 to $10,400,000**	**$0 to $10,400,000**

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act modifies provisions relating to Public Schools and Education Employee Retirement Systems and the MoDOT & Patrol Employees' Retirement System.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
MoDOT & Patrol Employees' Retirement System
Public Schools and Education Employee Retirement Systems
Missouri Department of Transportation

Julie Morff
Director
March 31, 2023

Ross Strope
Assistant Director
March 31, 2023

JLH:LR:OD